Cabinet

REORGANISATION OF THE IRON AND STEEL INDUSTRY

Memorandum by the Lord President of the Council and the Minister of Supply

The Cabinet, at their meeting on 24th July (C.P. (47) 64th Conclusions, Minute 2) agreed to have a further discussion about the reorganisation of the iron and steel industry, and we think that it would facilitate this further discussion if we summarise briefly the alternative courses which emerged from the discussions of 24th July.

Acquisition of Physical Assets

2. The Cabinet, at their meetings on 21st and 28th April, 1947, (C.P. (47) 39th Conclusions, Minute 6, and 40th Conclusions, Minute 2) discussed the manner in which appropriate sections of the iron and steel industry might be transferred to the ownership of the nation on the basis of proposals put forward by the Minister of Supply (C.P. (47) 123 and 132). The Cabinet then accepted the view that in this particular case any comprehensive acquisition of physical assets on the lines adopted in the case of coal would involve great complications (e.g. as regards severance and the necessity for substantial management adjustments) and could only be effected over a long period. Throughout that time powers of potential state acquisition would overhang the industry and there would be continued uncertainty and loss of incentive. The arguments against proceeding by the acquisition of physical assets appear to us to be decisive.

Acquisition of Selected Companies

3. As the Cabinet have already agreed, the most practical method of securing public ownership is the acquisition by the Government of all the shares in selected companies on the lines suggested in C.P. (47) 123. At the same time it would be inevitable that the energies of many of the active personalities in the industry would be diverted away from concentration on maximum steel output and the execution of development schemes to opposing Government's plans or to considering their own future - e.g. by such means as the promotion of schemes having
off sections of their undertakings under continued private ownership. There would thus be a real danger that in the critical year or two immediately ahead the national economy would be seriously handicapped through a continued shortage of steel. We cannot afford to run this risk.

Inaction

4. A postponement of any decision about the reorganisation of the iron and steel industry has certain attractions, but it has its dangers from the practical and political points of view. On the one hand the industry might be operating under the disadvantage of a state of uncertainty, which would continue from Session to Session until the end of the present Parliament since it is doubtful if we could carry through legislation if we completely retired from action next Session. On the other hand, a decision to take no action might leave the industry to suppose that all danger of nationalisation was removed with consequent difficulties of exercising effective government control. Moreover, we have clearly told the Federation that we proposed to take action on certain lines; and they would construe no action at all next Session as a sign of weakness and would have this in mind in any future negotiations. Politically, inaction could be represented as the policy of a rather weak Government which was scared by the iron and steel interests and possibly scared by the United States. We should not like to have to face the Party with this policy or lack of policy.

Compromise outlined in C.P.(47) 212

5. There remains the compromise which we put before our colleagues at the meeting of the Cabinet on 21st July. It has the substantial advantage that control of the iron and steel industry becomes fully vested in the Government and it would be easier for Government to acquire the necessary technical knowledge to enable complete socialisation to be effected, if it were thought desirable, during the next Parliament. Many of the Party may wish that we could have gone further, though others in the Party favour a moderate line. But we shall at least have taken a definite step forward on the road towards socialisation without running the risk of jeopardising steel output at a critical time and in co-operation with the industry who would acquiesce, thus tending to disarm the Opposition; and the way will be paved for a final step at a later date.

H.M.
J.W.

28th July, 1947.